

MULTIMEDIA



UNIVERSITY

STUDENT ID NO

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# MULTIMEDIA UNIVERSITY

## FINAL EXAMINATION

TRIMESTER 1, 2017/2018

### **BFN 3114 – TAX PLANNING** (Section BO1)

11 OCTOBER 2017  
9.00 a.m. – 11.00 a.m.  
( 2 Hours )

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#### INSTRUCTIONS TO STUDENTS

1. This question paper consists of **NINE (9)** printed pages including cover page with **THREE (3)** questions only.
2. Answer **ALL** questions.
3. Please write all your answers in the answer booklet provided.
4. Marks allocations are shown at the end of each question.

**QUESTION 1**

a) Julian and Theresa are both British citizens. They are English teachers for International English Language Testing System (IELTS) based in the United Kingdom (UK). They arrived in Malaysia for the first time on 1 June 2016 to conduct English classes and test for IELTS under British Council Malaysia. During the period they were in Malaysia, they exercised their employment in Malaysia but were not paid any salary in Malaysia. Their salaries were paid in UK. Julian returned to UK after 70 days in Malaysia, all of which were for work. Theresa returned to UK after 60 days in Malaysia, including a 5-days holiday. Neither Julian nor Theresa are expected to return to Malaysia in the next few years.

**Required:**

Advise Julian and Theresa on the Malaysian income tax implications relating to their employment during the period of their stay in Malaysia. You may quote the relevant provisions of the Income Tax Act 1967 (as amended) to support your answer.

(5 marks)

b) Teoh and Karim are both tax residents and partners in a consulting firm which commenced operations on 1 January 2010. Teoh's capital contribution was RM120,000 and Karim's was RM80,000. The partnership agreement provided for profits and losses to be shared according to capital contributed after paying return of 10% on capital contributed by the partners. Salary of RM6,000 per month were paid to each partner. Details of the partnership for the year ended 31 December 2016 are as follows:

	<u>RM</u>
Provisional adjusted income	187,600
Capital allowance	20,000
Donation to approved institutions	3,800

Besides income from the business, during the year, Teoh earns gross rental income from an apartment in Cyberjaya, Malaysia of RM24,000. Allowable expenses per annum for the apartment is RM8,000. Whereas Karim received RM9,000 single tier dividend from an investment made in a few companies listed on the Bursa Malaysia.

**Required:**

Compute the total income of each of the partners for the year of assessment 2016.

(15 marks)

[Total: 20 marks]

**QUESTION 2**

(a) Prasanti is a Malaysian citizen and tax resident. She just graduated from one of the public universities in Malaysia. On 1 January 2016, she accepted a job offer as an interior designer with Reka Interior Designer and Furnishing Sdn Bhd. Her income and benefits for the year ended 31 December 2016 was as follows:

**Continued...**

	<u>RM</u>
Gross salary for the year	90,000
Contribution by employer towards her employees provident fund (EPF)	9,900
Bonus	7,500
Travelling allowance	3,000
Leave passages:	
- Sabah	1,000
- Singapore	3,000
- Perak	1,000
Provision of a car (cost of car when new)	98,000
Fuel paid by the company	2,400
Hotel accommodation provided by her employer for one month	4,500
A gift from employer of a personal computer for her own use	2,000
During the year, Prasanti incurred the following expenditures:	
Contributions to Employees Provident Fund (EPF)	6,100
Medical expenses for herself	2,300
Books purchased	1,000
Employee's contribution to Social Security Organization (SOCSO) scheme	450
A donation of cash to an old folk home, an approved institution	1,500
Donation of books to an orphanage home, an approved institutions	900

Prasanti also earned royalties of RM4,200 from a publisher, for a novel authored by her. She also received interest income from fixed deposit in Bank Midley, Singapore, amounting to RM5,000.

**Required:**

With reference to the Income Tax Act 1967 (as amended), compute the chargeable income and the tax payable by Prasanti for the year of assessment 2016.

(22 marks)

b) QR Sdn Bhd (QR), a manufacturer of car accessories and replacement parts, makes up its accounts annually to 31 December. QR commenced operations on 1 March 2016 and prepared its first sets of accounts for the period from 1 March 2016 to 31 December 2016. The following additions were recorded in the company's non-current asset register in the year 2016:

Date acquired	Asset description	Cost (RM'000)
15 January	Machinery – general	250
1 March	Factory building, which includes office and a showroom equal to 30% of its area	7,500

**Continued...**

10 March                      Commercial vehicles                      120

The initial deposit paid for the commercial vehicles was RM24,000. The 48 monthly instalments commence from May 2016 of RM2,050 per month including financial charge of RM50.

**Required:**

Based on the information given, compute the capital allowances and industrial building allowances claimable by QR Sdn Bhd for the years of assessment 2016 and 2017.

(18 marks)

[Total: 40 marks]

**QUESTION 3**

Ramaiyer operates a sole-proprietorship business known as De'Rama Enterprise since 2010. The profit and loss account of the business for the year ended 31 December 2016 is appended below:

De'Rama Enterprise			
Profit and Loss account for the year ended 31 December 2016			
	Note	RM	RM
Sales			390,000
Less: Cost of sales			(210,800)
Gross profit			179,200
Add: Other income	1		47,000
			226,200
Less: Expenses			
Advertising and promotion expense	2	3,000	
Staff welfare	3	5,700	
Staff salaries		87,000	
Bad debts	4	6,400	
Depreciation		13,450	
Entertainment	5	5,800	
Motor vehicle expenses	6	9,400	
Miscellaneous expenses	7	11,600	
Legal fees	8	4,000	
Loss on disposal of asset	9	1,000	
Rental of premises	10	21,000	168,350
Profit before taxation			57,850

**Continued...**

**Notes:**

## 1. Other income of RM47,000.

The amount refers to a single tier dividend of RM10,000 received from an investment of shares in few publicly listed companies and rental of RM37,000 of an apartment in Malaysia.

## 2. Advertising and promotion expense of RM3,000.

The amount includes cost of flyers and leaflets of RM1,800 for promoting the business and donation of computer of RM1,200 to a local non-profit organization, an approved institution.

## 3. Staff welfare of RM5,700

The amount includes RM3,000 for staff medical and dental expenses. The balance of RM2,700 was incurred for staffs' family day at Port Dickson, Negeri Sembilan.

## 4. Bad debt of RM6,400

The amount refers to RM2,000 in respect of a trade debt written off and provision for bad debts of RM4,400.

## 5. Entertainment of RM5,800

The amount includes RM2,800 in respect of a lunch treat for the company's clients (wholly related to sales). The balance of RM3,000 was incurred for lucky draw prizes given to customers as part of a sales promotional campaign.

## 6. Motor vehicle expenses of RM9,400

The amount refers to insurance on business motor vehicles of RM3,300, repair and maintenance for business vehicles of RM4,700 and settlement of traffic summons of RM1,400.

## 7. Miscellaneous expenses of RM11,600

This is in respect of the following:

	RM
Water, telephone and electricity consumed	11,200
Late payment penalty on water bill	<u>400</u>
	<u>11,600</u>

## 8. Legal fees of RM4,000

This refers to fees incurred for the following:

	RM
Accounting fees	2,000
A new air conditioner for the shop	1,700
Cost of income tax appeal	<u>300</u>
	<u>4,000</u>

**Continued...**

9. Loss on disposal of an asset of RM1,000

This was computed as follows:

	RM
Disposal of assets	3,600
Net book value of asset	<u>2,600</u>
Loss on disposal	<u>(1,000)</u>

10. The rental of premises includes RM3,000 paid in advance for the months of January 2017 to February 2017.

11. The capital allowances for the year of assessment 2016 amounted to RM13,900 and balancing allowances was RM1,700. The capital allowances do not include new fixed asset, air conditioner bought during the year.

**Required:**

Compute the total income of De'Rama Enterprise for the year of assessment 2016.

*Note: Start your computation with profit before taxation figure and indicating 'NIL' in the appropriate column for item that does not require adjustment.*

(40 marks)

**End of question**

**APPENDIX 1****TAX RATES AND ALLOWANCES**

The following tax rates, allowances and values are to be used in answering the questions.

**Income tax rates for resident individuals for the year assessment 2016.**

	<b>Chargeable Income</b>	<b>Tax Rate</b>	<b>Income Tax Payable</b>
	<b>RM</b>	<b>(%)</b>	<b>RM</b>
<b>First</b>	<b>2,500</b>	<b>0</b>	<b>0</b>
Next	<u>2,500</u>	0	<u>0</u>
<b>On</b>	<b>5,000</b>		<b>0</b>
Next	<u>5,000</u>	1	<u>50</u>
<b>On</b>	<b>10,000</b>		<b>50</b>
Next	<u>10,000</u>	1	<u>100</u>
<b>On</b>	<b>20,000</b>		<b>150</b>
Next	<u>15,000</u>	5	<u>750</u>
<b>On</b>	<b>35,000</b>		<b>900</b>
Next	<u>15,000</u>	10	<u>1,500</u>
<b>On</b>	<b>50,000</b>		<b>2,400</b>
Next	<u>20,000</u>	16	<u>3,200</u>
<b>On</b>	<b>70,000</b>		<b>5,600</b>
Next	<u>30,000</u>	21	<u>6,300</u>
<b>On</b>	<b>100,000</b>		<b>11,900</b>
Next	<u>50,000</u>	24	<u>12,000</u>
<b>On</b>	<b>150,000</b>		<b>23,900</b>
Next	<u>100,000</u>	24	<u>24,000</u>
<b>On</b>	<b>250,000</b>		<b>47,900</b>
Next	<u>150,000</u>	24.5	<u>36,750</u>
<b>On</b>	<b>400,000</b>		<b>84,650</b>
Exceeding	400,000	25	.....

**Non-Resident Individual Rate for employment income (year of assessment 2016)**

Non-resident person other than non-resident companies: 28%

**Capital allowances**

	<b>Initial Allowance</b>	<b>Annual Allowance</b>
Office equipment, furniture and fittings	20%	10%
Plant and machinery – general	20%	14%
Plant and machinery (heavy) and motor vehicle	20%	20%
Industrial building	10%	3%

**Benefits in Kind (BIK)****(a) Household Furnishings, Apparatus & Appliances**

	<b>Types Of BIK</b>	<b>Annual Value Of BIK</b>
(a)	Semi-furnished with furniture in the lounge, dining room or bedrooms.	RM 840 (RM 70 per month)
(b)	Semi-furnished with furniture as in (a) above and one or more of the following: air-conditioners, curtains and carpets	RM 1,680 (RM 140 per month)
(c)	Fully-furnished with benefits as in (a) and (b) above with one or more of the following: kitchen equipment, crockery, utensils and appliances.	RM 3,360 (RM 280 per month)
(d)	Service charges and other bills such as for water, electricity and telephone.	Service charges and bills paid by the employer.

<b>Gardener</b>	RM 3,600 per annum
<b>Domestic servant</b>	RM 4,800 per annum
<b>Driver</b>	RM 7,200 per annum

**(b) Value of motor vehicles**

<b>Cost of vehicles (new)</b> <b>RM</b>	<b>Annual Value of BIK</b> <b>RM</b>	<b>Fuel per annum</b> <b>RM</b>
Up to – 50,000	1,200	600
50,001 – 75,000	2,400	900
75,001 – 100,000	3,600	1,200
100,001 – 150,000	5,000	1,500
150,001 – 200,000	7,000	1,800
200,001 – 250,000	9,000	2,100
250,001 – 350,000	15,000	2,400
350,001 – 500,000	21,250	2,700
500,001 – and above	25,000	3,000

The value of the car benefit equal to half of the prescribed annual value (above) is taken if the car is provided is more than five (5) years old, but the value of the fuel provided remains unchanged.

Where a driver is provided by the employer, the value of the benefit per month is fixed at RM600 per month.



### Reliefs

	RM
Self	9,000
Disabled self- additional	6,000
Medical expenses expended for parents (max)	5,000
Medical expenses expended on self, spouse or child with serious decease, [including up to RM500 for medical examination (max)]	6,000
Basic supporting equipment for disabled self, spouse, child or parent (max)	6,000
Fees expended for skills or qualifications (max)	7,000
Expenses on books for personal use (max)	1,000
Spouse relief (if he or she has no source of income or elects for combined assessment)	4,000
Disabled spouse	3,500
Child below 18 years (each)	2,000
Disabled child unmarried (each)	6,000
Child- over 18 years of age and studying in higher learning institution	8,000
Amount deposited to SSPN for his child (max)	6,000
Life insurance premiums and contributions to approved provident funds (max)	6,000
Medical or education insurance premiums for self, spouse or child (max)	3,000
Purchase of personal computer (max)	3,000
Purchase of sports equipment	300
Interest paid on housing loan (1 <sup>st</sup> residential property)	10,000
Broadband subscription fee	-
Private retirement scheme or annuity premium (max)	3,000
Parental care – father or mother each	1,500

### Rebates

	RM
Chargeable income not exceeding RM35,000	
Individual	400
Individual who has been given a deduction in respect of a spouse or former wife	400

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